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TAGS: ECON ETRD EFIN PGOV BN
SUBJECT: GOB TAKES MEASURES AGAINST INFLATION

1.(SBU) SUMMARY: The GOB's November 30, 2007, decision to put in place a system of price controls for items of mass consumption may have born fruit as food prices for a typical family dropped from their highs in late November 2007 to more affordable prices in early January 2008. In response to popular discontent with rising prices, the GOB imposed a system of price controls and reduced taxes on imports on December 10, 2007 to lower the prices of imported foodstuffs and construction materials. The GOB also took action to reduce the price of domestically produced foodstuffs. The GOB explained these measures as a response to the impact of the surge in prices on the population. Post's sources raised a number of problems with this program, and one GOB source admitted the program was for a primarily "psychological" affect. END SUMMARY.

How did the GOB try to bring down prices?

2.(U) The GOB set prices for basic foodstuffs and construction materials in early December 2007. The prices, which will be re-examined every three months, apply to imported wheat, flour, rice, milk, sugar, pasta, and tomato paste. For example, the price of a 50 kg bag of wheat, which had almost doubled in price from the price of 12,500 FCFA to 22,000 FCFA before the price controls, was set at 14,800 FCFA. In the construction sector, the GOB extended price controls that previously existed just for cement to rebar (the iron rods used when building with cement) and the bags containing dry cement. To offset the increased costs of fixed prices to importers, the GOB substantially reduced taxes on imported products. The GOB also offered tax credits to importers who already had paid taxes on the goods that now must sell for a lower price. According to Gregoire Akofodji, the Minister of Industry and Commerce, these new tax credits will cost the GOB $6.6 million (3 billion FCFA) a month.

3.(U) In addition to imposing price controls, the GOB will spend 480 million FCFA ($1.06 million) to buy crops such as corn, millet and sorghum when output is excessive and stock them for future demand. The GOB plans to use this stock to help meet the demand during the transitional period between harvests. Additionally, during December 2007, the GOB repaired feeder roads whose bad condition had prevented farmers from bringing their products to market. The GOB also stepped up oversight on customs agents and police officers along the main trading routes who had previously demanded "taxes" from traders carrying domestically produced foodstuffs.

Why set prices?

4.(U) The GOB attributes price increases in part to flooding in food-producing areas, which destroyed crops and the roads used to bring produce to market. In addition, the high demand for corn, millet and sorghum in Nigeria at higher prices than in Benin encourages Beninese farmers to forgo the domestic market for the more profitable Nigerian market. High oil costs also have increased the price of imported goods. Although external factors certainly play a part in rising prices, several commentators have remarked that a rise in prices is not unusual at the end of the year when consumers buy more products to celebrate the holidays of Eid al-Adha, Christmas, and the New Year.

5.(SBU) The GOB may also have a political agenda in acting to reduce prices in the face of upcoming municipal elections in February 2008. A source close to the Minister of Finance readily admitted that price controls would be difficult to implement and police. He stated that the price control program was primarily designed to demonstrate to the public the government's concern about the hardship caused by inflation.

What could go wrong?

6.(SBU) Private and GOB sources pointed to a number of problems with the price fixing plan. A GOB Customs Service source stated that the market price is a conventional transactional price, which is protected by WTO and West African Economic and Monetary Union (WAEMU) conventions. According to the same source, the GOB will breach these conventions by artificially reducing the market price. He also pointed out that importers may declare more goods than they actually have to benefit from the GOB's tax credit scheme.

7.(SBU) A source on Benin's Private Investors Council raised the

concern that price supports in Benin could result in the same arbitrage trading with Nigeria, which already occurs in the Beninese cement market. The price of a sack of cement in Benin costs half as much as a sack of cement in Nigeria due to Beninese price controls on cement. Traders take advantage of this artificial difference to export cement to Nigeria which in turn causes a shortage of cement in Benin's construction sector.

Has it worked?

8.(U) Prices of foodstuffs are decreasing. Before the prices of foodstuffs began to surge in August 2007, an average household used to spend a little over 5,000 FCFA ($11) for dinner on a weekly basis. When inflation was at its peak in late November 2007, a household's weekly dinner expenses increased to between 6,000 and 7,000 FCFA. The same family would pay approximately 5,500 FCFA for dinner on January 2, 2008. It is not readily apparent if the GOB's policies caused the decrease in prices or if it was seasonally driven, but the GOB should reap the political benefits if prices remain low.

Comment

9.(SBU) Comment: President Yayi's imposition of price controls in the holiday period appears to have been driven by political considerations as municipal elections approach. The price controls and related subsequent decrease in prices demonstrates GOB concern for voters most affected by rising prices -- i.e., those whom the President counts among his closest political supporters. The continued success of President Yayi's price control program depends on prices staying low and the GOB's ability to continue to bear the costs of reduced tax revenues on imported foodstuffs. End Comment.

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